



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 27, 2000

S. 1474

Palmetto Bend Conveyance Act

*As ordered reported by the Senate Committee on Energy and Natural Resources
on June 7, 2000*

SUMMARY

S. 1474 would direct the Secretary of the Interior to convey the Palmetto Bend Reclamation Project to the state of Texas. As a condition of the conveyance, S. 1474 would require that the state pay the net present value of its repayment obligations on the project. This money would be deposited in the Reclamation Fund. The bill specifies the discount and interest rates that must be used to calculate the net present value of this revenue stream. The state also must agree to manage the project for its original purposes, which include providing a municipal and industrial water supply, conserving and developing fish and wildlife resources, and enhancing recreational opportunities. Once the project is conveyed, the Bureau of Reclamation would no longer pay for the operation and maintenance of the project.

CBO estimates that enacting S. 1474 would result in a net decrease in direct spending of \$34 million over the 2001-2005 period. Estimated asset sale receipts of \$51 million would provide near-term savings in 2001, but these savings would be offset by the loss of offsetting receipts of about \$4 million a year over the 35-year period from fiscal year 2001 through 2035. Because enacting S. 1474 would affect direct spending, pay-as-you-go procedures would apply. CBO estimates that implementing this bill would have no significant effect on discretionary spending.

S. 1474 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The state of Texas probably would incur some costs as a result of the bill's enactment, but these costs would be voluntary.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1474 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	-48	3	3	4	4
Estimated Outlays	0	-48	3	3	4	4

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 1474 will be enacted by the end of fiscal year 2000. We expect that the state will have paid any amounts due for fiscal year 2000 in August of this year and that the project will be conveyed to the state of Texas in fiscal year 2001.

CBO estimates that enacting S. 1474 would reduce direct spending by \$34 million over the 2001-2005 period, but would have very little net budgetary impact—on a present value basis—over the life of the Palmetto project. As a condition of conveyance, S. 1474 requires that the state pay the net present value of its repayment obligations on the project, using a discount rate based on the average interest rate on 30-year U.S. Treasury bonds in the month preceding the sale. CBO estimates that the state would pay \$51 million in 2001 for the project, based on an estimated repayment obligation of \$72 million and a projected discount rate of 6.6 percent. Once conveyed, the government would forgo payments of roughly \$4 million a year for the next 35 years.

Based on information from the bureau, CBO estimates that the agency currently spends less than \$500,000 each year for the operation and maintenance of the project. Hence, we estimate that any discretionary savings from the conveyance would not be significant. Likewise, implementing this bill may change the timing of deposits to the Reclamation Fund, but CBO expects that such changes would have a negligible effect on discretionary spending.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	-48	3	3	4	4	4	4	4	4	4
Changes in receipts					Not applicable						

Under the Balanced Budget Act (BBA), proceeds from nonroutine asset sales (sales that are not authorized under current law) may be counted for pay-as-you-go purposes only if the sale would entail no financial cost to the government. CBO estimates that the sale of the Palmetto Bend Project as specified in S. 1474 would satisfy the conditions in the BBA, and therefore, the proceeds would count for pay-as-you-go purposes.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1474 contains no intergovernmental or private-sector mandates as defined in UMRA. The conveyance authorized by this bill would be voluntary on the part of the state, and any costs it would incur to meet the conditions imposed by the bill also would be voluntary. Before the property could be conveyed to the state, the bill would require the state to pay the present value of its outstanding obligation to the United States and to pay certain transaction costs. It also would require the state to assume responsibility for operating and maintaining the project.

ESTIMATE PREPARED BY:

Federal Costs: Rachel Applebaum

Impact on State, Local, and Tribal Governments: Marjorie Miller

Impact on the Private Sector: Jean Wooster

ESTIMATE APPROVED BY:

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis